



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 3, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: **OPTIONS – A CHILD CARE AND HUMAN SERVICES AGENCY – A
DEPARTMENT OF PUBLIC SOCIAL SERVICES CALWORKS STAGE
ONE CHILD CARE SERVICES PROGRAM PROVIDER – CONTRACT
COMPLIANCE REVIEW**

We completed a contract compliance review of Options – A Child Care and Human Services Agency (Options or Agency), which covered a sample of transactions from July 2012 through March 2014. The Department of Public Social Services (DPSS) contracts with Options, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether Options appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid Options a fixed monthly fee of \$15,625, and a negotiated monthly rate of \$160 per participant to fund Stage One Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, Options develops a rate agreement, and pays the child care provider directly. DPSS reimburses Options for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid Options approximately \$10 million from July 2012 through March 2014. Options provides services to residents of the First, Fourth, and Fifth Supervisorial Districts.

Results of Review

Options provided services to eligible participants and child care providers, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. In addition, the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract and used the Plan to allocate shared costs appropriately. However, we noted Options had \$5,887 in unspent Program funds for Fiscal Year 2012-13. Options' attached response indicates that they will work with DPSS to return or reinvest the unspent revenue.

Details of our review, along with a recommendation for corrective action, are attached.

Review of Report

We discussed our report with Options and DPSS in September 2014. Options' attached response indicates agreement with our finding and recommendation. DPSS will work with Options to ensure that our recommendation is implemented.

We thank Options management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachments

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
Patricia A. Huffman, Board Chair, Options
Cliff C. Marcussen, Executive Director, Options
Public Information Office
Audit Committee

**OPTIONS – A CHILD CARE AND HUMAN SERVICES AGENCY
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
JULY 2012 THROUGH MARCH 2014**

ELIGIBILITY

Objective

Determine whether Options – A Child Care and Human Services Agency (Options or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements, and whether the child care providers were eligible to provide Stage One Program services.

Verification

We reviewed the case files for 30 (6%) of the 470 participants who received services, and 30 (8%) of the 395 child care providers who provided child care during February 2014 for documentation to confirm the participants' eligibility to receive and the providers' eligibility to provide Stage One Program services.

Results

Options had documentation to support all 30 participants' eligibility to receive and all 30 providers' eligibility to provide Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Options provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

Verification

We visited one (50%) of the two Options' service sites, and reviewed the case files for 30 (6%) of the 470 participants who received services, and 30 (8%) of the 395 child care providers who provided child care during February 2014.

Results

The case files for the 30 participants and 30 child care providers reviewed had documentation to support that Options provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Options' staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for ten (20%) of the 49 Options employees who worked on the Stage One Program.

Results

Options' staff reviewed had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether Options properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed Options' management, and reviewed their financial records and March 2014 bank reconciliations.

Results

Options properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) payments into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether expenditures charged to the Stage One Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared expenditures appropriately.

Verification

We interviewed Options' personnel, and reviewed their Plan, and financial records for 20 non-payroll expenditures, totaling \$75,691, that the Agency charged to the Stage One Program from January 2013 through March 2014.

Results

Options' expenditures were allowable, properly documented, and accurately billed. In addition, Options prepared their Plan in compliance with their County contract, and the Agency allocated their shared expenditures appropriately.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether Options charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll costs for ten employees, totaling \$9,839 for January and February 2014, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for ten Options Stage One Program staff.

Results

Options appropriately charged payroll costs to the Stage One Program, and maintained personnel files as required.

Recommendation

None.

CLOSE-OUT REVIEW**Objective**

Determine whether Options had any unspent revenue for the Stage One Program for Fiscal Year (FY) 2012-13.

Verification

We traced the total revenues and expenditures from Options' FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

Options' close-out report indicated that they did not have any unspent revenue for FY 2012-13. However, Options received \$6,023,723 from DPSS for the Stage One Program for FY 2012-13 and the Agency's accounting records indicated their FY 2012-13 expenditures totaled \$6,022,750 resulting in \$973 in unspent Program funds. Furthermore, we noted that DPSS disallowed \$4,914 in direct provider payments during FY 2012-13 resulting in \$5,887 (\$973 + \$4,914) in unspent Program funds.

Recommendation

1. Options management provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.



PTIONS – A Child Care and Human Services Agency

Board of Directors

Patricia A. Huffman
David M. Wilbur
Howard Friedman
Veronica Galameau
Susan M. Keith
Peggy Sisson
Michelle R. Capistrand
Viet Tim Le

September 25, 2014

John Naimo, Acting Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

Executive Director/CEO

Cliff C. Marcussen

Re: Response letter to Auditor-Controller's audit of Options' CalWORKs Stage One child care contract with DPSS, covering 7/12 through 6/13

Deputy Executive Director/COO

Dolores Meade

Dear Mr. Naimo:

Chief Financial Officer

Amy H. Nih

I appreciate this opportunity to provide Options' response to the draft audit of Options' CalWORKs Stage One child care contract with the Department of Public Social Services for the period listed above. We appreciate the cooperation of the Auditor-Controller's staff in the audit process.

I am also pleased that the audit found Options to be fully in compliance with the contract requirements in six of the seven areas audited. One finding and recommendation were made in the seventh area audited.

Regarding the one recommendation -- after extensive work to reconcile the DPSS numbers and Options' accounting numbers, we understand why the discrepancies exist. Options agrees with the finding that "Options' management provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue." We wish to note that there is \$3,354.06 in Direct Provider Payments that Options paid out to providers in 2012-13 that DPSS has not yet reimbursed Options, and which will be included in our revised close-out report to DPSS.

I would like to bring two systematic problems in the operation of the CalWORKs Stage 1 contract to the attention of top management at DPSS.

1. DPSS disallows some payments to child care providers that were properly paid by Options (or, we assume, other agencies). This is, in fact, the root problem that eventually led to the \$5887 in total discrepancies reported in the A-C Audit.

2. DPSS issues its Final Invoice payment so late that it creates accounting problems and discrepancies. A Final Invoice from Options (and other agencies) is due after the end of the contract year, when all payments for June have been processed in July and early August. The Contract requires DPSS to pay any amount due to the agency on this Final Invoice within 30 days of receipt and determination that an amount is due. For the 2012-13 program year, Options submitted its Final Invoice on August 26, 2013. Options did not receive a statement of payment from DPSS on this Final Invoice until November 22, 2013 (the document was dated November 19) – 83 or 86 days after Options submitted its Final Invoice. Options (and other CalWORKS Stage 1 contractors) must close its accounting books before mid-November, to meet requirements of its state contracts. In other words, we must balance and finalize our accounting books PRIOR to even knowing how much DPSS will either approve or disallow in our Final Invoice. This issue was a significant underlying reason for the discrepancies that led to the \$5,887 cited in this audit.

Options is committed to both filing the revised close-out report with DPSS, and working with DPSS senior management to resolve these two problems that are the root cause of the type of accounting discrepancies being reported by the Auditor-Controller.

Sincerely,



Cliff C. Marcussen
Executive Director, Options

Cc: Amy Nih, CFO, Options

Kelly O'Connell, Deputy Executive Director, Child Care Services Division, Options

Cristina Alvarado, Executive Director, Child Care Alliance of Los Angeles